UTAH OIL AND GAS RECOVERY INCENTIVES

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WORKOVERS / RECOMPLETIONS

A working interest owner who pays for all or part of the expenses of a recompletion or workover is entitled to a tax credit equal to 20% of those expenses. The tax credit may not exceed $50,000 per well during each calendar year until December 31, 1994, and $30,000 per well during each calendar year, beginning January 1, 1995, through December 31, 2004.

Citation: Utah Code Ann. § 59-5-102(3)

Effective dates: January 1, 1990, through December 31, 2004

Goals: To encourage investment in and continued production of wells, increase recovery, delay abandonment, establish new production, and provide for economic gains in areas of the state which have oil and gas activity. Since the cost of a workover is only a fraction of the cost to drill a new well, a workover incentive is expected to extend the producing life of wells in the Utah Basin, thereby creating jobs and tax revenue in that region.

Active supporters: Petroleum industry, county and state governments.

Impact: This is an effective and widely used incentive.

GRADUATED SEVERANCE TAX RATE

For oil, the severance tax rate is 3% up to and including the first $13 per barrel, and 5% of the value exceeding $13 per barrel. The severance tax rate for natural gas is 3% for the first $1.50 per Mcf, and 5% of value above $1.50.

Citation: Utah Code Ann. § 59-5-102(1)

Effective date: January 1, 1992; no sunset

Goal: To provide tax relief during periods of low prices, encouraging continued production.

MARGINAL / STRIPPER WELLS

Stripper wells are tax exempt unless the exemption prevents the severance tax from being treated as a deduction for federal tax purposes. Stripper wells are defined as wells which prduce an average of less than 20 BOPD for one year, or 60 Mcf or less of natural gas per day for 90 consecutive days.

Citation: Utah Code Ann. § 59-5-102(2)(b)

Effective date: January 1, 1984; no sunset

Goals: To encourage continued production activity and to avoid premature abandonment of marginal wells.

FIELD EXEMPTION

The first $50,000 annually in gross value of each well or field is exempt from severance taxes, to be prorated proportionally among the interest owners.

Citation: Utah Code Ann. § 59-5-102(2)(a)

Effective date: January 1, 1947; no sunset

Goal: To encourage exploration activity.

WILDCAT WELLS

No severance tax is imposed on the first 12 months of production from wildcat wells started after January 1, 1990.

Citation: Utah Code Ann. § 59-5-102(2)(d)

Effective date: January 1, 1990; no sunset

Goal: To encourage exploration activity.

NEW WELLS

The first six months of production from new wells started after January 1, 1984, but before January 1, 1990, and development wells started after January 1, 1990, is exempt from severance taxes.

Citation: Utah Code Ann. § 59-5-102(2)(e)

Effective dates: January 1, 1984, (new wells); no sunset, and January 1, 1990 (development wells); no sunset

Goal: To encourage exploration activity.

ENHANCED RECOVERY

A 50% reduction in severance tax is available for the incremental production achieved from an enhanced oil or gas recovery project.

Citation: Utah code Ann. § 59-5-102(4)

Effective data: January 1, 1996; no sunset

Goals: To encourage initiation of enhanced recovery projects and use of marginal wells, increase production and avoid premature abandonment of marginal wells.

Active supporters: Industry and state government.